

BILL # HB 2460

SPONSOR: Pierce

REQUESTED BY: House

TITLE: vehicle registration; nonresidents; tax exemption
(NOW: registration; motor vehicles; nonresidents)

STATUS: House Engrossed

PREPARED BY: Bob Hull

FISCAL ANALYSIS

Description

The engrossed bill would allow nonresidents who purchase a motor vehicle in Arizona for registration out-of-state to pay their home state's lower transaction privilege tax rate to Arizona, if they obtain a special 30-day nonresident registration permit and if their home state allows a corresponding use tax exemption.

Estimated Impact

The JLBC Staff is unable to determine the bill's fiscal impact. The bill could decrease General Fund revenues in some circumstances, but increase it in others. General Fund revenue could decrease by an unknown amount beginning in FY 2005, as some nonresidents would qualify to pay their home state's lower tax rate to Arizona rather than Arizona's 5.6% transaction privilege tax rate. The bill could also produce an increase in General Fund revenue beginning in FY 2005. This could occur if some nonresidents choose to get a 30-day permit and pay their home state's lower tax rate to Arizona, instead of paying to ship a vehicle for out-of-state delivery and then paying their home state's tax when they register the vehicle there.

ADOT estimates programming costs of \$36,600 to the State Highway Fund in FY 2005. DOR estimates that the engrossed bill would decrease transaction privilege tax revenue by \$(4.5) million to \$(9.1) million. The DOR estimate, however, does not account for potential increases in revenue due to some nonresidents choosing to get a 30-day permit and paying transaction privilege taxes to Arizona rather than paying to ship their vehicle.

Analysis

Currently, nonresidents do not pay Arizona's transaction privilege tax on motor vehicles purchased in Arizona under either of two scenarios. First, nonresidents who purchase a motor vehicle in Arizona for use out-of-state do not pay Arizona's transaction privilege tax if the vendor ships or delivers the vehicle out-of-state. Second, nonresidents who purchase a motor vehicle in Arizona for registration out-of-state do not pay Arizona's transaction privilege tax if their home state does not allow a corresponding use tax exemption (7 states including Arkansas, Indiana, Maryland, Mississippi, Oklahoma, South Dakota and West Virginia, and the District of Columbia) and they obtain a 30-day permit. When these nonresidents later register the vehicle in their home state, they would pay use tax to their home state. DOR cannot quantify the revenue impact of the current law for nonresidents who avail themselves of existing transaction privilege tax exemption provisions relating to motor vehicles. For example, DOR does not know how many nonresidents currently do not pay Arizona's transaction privilege tax due to buying a motor vehicle in Arizona and taking delivery out-of-state. Also, DOR does not know how many of the 10,679 nonresidents who were issued 30-day permits in FY 2003 did not pay Arizona's transaction privilege tax due to their home state not allowing a corresponding use tax exemption.

The engrossed bill would provide nonresidents with another option. It would allow nonresidents who purchase a motor vehicle in Arizona for registration out-of-state to pay their home state's lower transaction privilege tax rate to Arizona, if they obtain a 30-day permit and if their home state allows a corresponding use tax exemption. When these nonresidents later register the vehicle in their home state, that state would then recognize the taxes as having been paid. These nonresidents would currently either pay Arizona's 5.6% transaction privilege tax, or they might choose to take delivery of the vehicle out-of-state and pay no Arizona transaction privilege tax. Of the 42 states that allow a corresponding use tax exemption, 26 states have rates lower than Arizona's 5.6% transaction privilege tax rate. ADOT reports issuing 10,679 30-day permits in FY 2003 and 6,824 30-day permits in the first half of FY 2004. ADOT reports that they do not have the historical data to know whether they would normally issue the same number of 30-day permits during the second half of a fiscal year as during the first half. ADOT could not identify the number of 30-day permits issued by individual state.

The engrossed bill could cause General Fund revenue to decrease by an unknown amount beginning in FY 2005. It is unknown how many of the 10,679 nonresidents who were issued 30-day permits in FY 2003 would have been from states allowing a corresponding use tax exemption and with a lower tax rate than Arizona. Arizona's General Fund revenue would decrease to the extent that such nonresidents paid their home state's tax rate, which is lower than Arizona's 5.6% transaction privilege tax rate. However, the engrossed bill could also produce some unknown offsetting increase in General Fund revenue beginning in FY 2005. This could occur if some nonresidents choose to get a 30-day permit and pay their home state's lower tax rate to Arizona, instead of paying to ship a vehicle for out-of-state delivery and then paying their home state's tax when they register the vehicle there.

The engrossed bill would have a general effective date.

Local Government Impact

Local governments would have an unknown fiscal impact to their transaction privilege tax distributions beginning in FY 2005. The engrossed bill could decrease their transaction privilege tax distributions in some circumstances, but increase it in others.

3/12/04